

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Neluwa Pradeshiya Sabha including the financial statements for the year ended 31 December 2022 comprising the Statement of financial position as at 31 December 2022, Statement of Financial Operations, statement of changes in net assets, Cash Flow Statement for the year and significant accounting policies and other explanatory information was carried out, for the year then ended, under my direction in pursuance of provisions in Article 154 (1) of the constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Sub-Section 172 (1) of the Pradeshiya Sabha Act No. 15 of 1987 and the provisions of the National Audit Act No 19 of 2018. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.6 of this report, the accompanying financial statements give a true and fair view of the financial position of the Neluwa Pradeshiya Sabha as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Practices.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.6 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally accepted Accounting Practices and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Pradeshiya Sabha's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Pradeshiya Sabha is required to maintain proper books and records of all its income, expenditure, assets and liabilities to enable annual and periodic financial statements.

1.4 Audit Scope (Responsibility of the Auditor for the audit of Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of its internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Pradeshiya Sabha, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Pradeshiya Sabha has complied with applicable written law, or other general or special directions issued by the governing body of the Pradeshiya Sabha
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources of the Pradeshiya Sabha had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Report on Other Legal Requirements

The National Audit Act No. 19 of 2018 contains special provisions regarding the following requirements.

- (a) Financial Statements of the Pradeshiya Sabha as per the requirement mentioned in Section 6 (1) (d) (iii) of the National audit Act No. 19 of 2018 corresponded with the Financial Statements of the previous year.
- (b) In accordance with the requirement referred to in Section 6 (1) (d) (iv) of the National Audit Act No. 19 of 2018, recommendations made by me during the previous year are included in the submitted financial statements.

1.6 Audit observations regarding the preparation of financial statements

1.6.1 Accounting Deficiencies

Audit Observation	Comment of the Sabha	Recommendation
(a) The construction work valued at Rs. 2,000,000 had not been fulfilled. however, the Provisions were made as Capital Assistance debtors and Capital expenditure creditors for those Construction work. Therefore, the value of those balances was overstated.	Will be corrected in the future.	Should be accounted correctly.
(b) The key money of Rs.5,425,850 received to the Sabha in the year under review and in the previous years, had been accounted as payable deposits without adjustments to the income.	Will be corrected in future.	Should be accounted correctly.
(c) A credit provision of Rs.575,000 had been made for a construction work which bills had not been submitted as at 31 December of the year under review.	- do -	- do -
(d) The remaining stock of old electrical equipment had been under accounted by Rs.161,435 as at 31 December of the year under review.	- do -	- do -
(e) Fixed assets of Rs.535,837 received as donations in the year under review were not accounted under income.	- do -	- do -

1.6.2 Lack of Documentary evidence for Audit

Subject	Comment of the Sabha	Recommendation
Due to non-submission of the necessary detailed schedules for the confirmation of 06 accounting items aggregating to Rs. 540,271 could not satisfactorily examine during the audit	Agreed.	Evidence should be submitted to confirm the account balances.

1.7 Non-compliances

Non-compliance with Laws, Rules, Regulation and Management Decisions

Instances of Non-compliance with Laws, Rules, Regulation and Management Decisions are shown below.

Reference to Laws, Rules, Regulation and Management Decisions	Non – Compliance	Comment of the Sabha	Recommendation
(a) The Section 23 and 24 of the Pradeshiya Sabha Act No. 15 of 1987	A road inventory register, containing details of Sabha roads, had not been maintained.	The action will be taken to prepare in the future.	Action should be taken according to the Act.
(b) The Finance Regulations 571 of the Democratic Socialist Republic of Sri Lanka.	Deposits amounting to Rs.146,250 over a period of 02 years were not disposal.	The action will be taken to correct in the future.	Action should be taken according to the Financial Regulation.
(c) The Section 3(1) of the Extra ordinary Gazette of the Democratic Socialist Republic of Sri Lanka dated 05 October 2005	15 members were absent for Sabha meetings and had not submitted medical reports, however the Sabha had paid allowances of Rs.690,000 in the year 2022,	The action will be taken to bring in the medical records in the future.	Action should be taken according to the Gazette.

2. Financial Review

2.1 Financial results

According to the Financial Statements presented, excess of revenue over recurrent expenditure of the Sabha for the year ended 31 December 2022 amounted to Rs. 5,178,452 as against with the excess of recurrent expenditure over revenue amounting to Rs. 231,625 in the preceding year.

2.2 Financial Control

Audit Observation

There was a balance of Rs.3,304,366 in 02 savings accounts since the beginning of the year under review, and the attention of the Sabha was not focused on investing the surplus money in a safe fixed deposit.

Comment of the Sabha

The security bond of Rs.1,000,000 have been opened.

Recommendation

Surplus money should be invested.

2.3 Revenue Administration

2.3.1 Estimated Revenue, Revenue Billed, Revenue Collected and Arrears of Revenue

According to the information presented by the Sabha, estimated revenue, billed revenue, collected revenue and arrears related to the year under review and the previous year are given below.

Source of Revenue	2022				2021			
	Estimated Revenue (Rs.)	Revenue billed (Rs.)	Revenue Collected (Rs.)	Arrears as at 31 December (Rs.)	Estimated Revenue (Rs.)	Revenue billed (Rs.)	Revenue Collected (Rs.)	Arrears as at 31 December (Rs.)
Taxes	425,000	438,883	390,772	106,204	428,000	323,167	315,910	58,093
Rent	7,587,694	6,561,510	4,366,788	4,093,845	7,879,600	2,664,473	2,669,473	1,899,123
License Fees	283,600	172,430	212,725	-	285,500	165,325	553,792	40,295
Other revenue	3,093,724	2,988,203	2,986,928	222,285	3,107,330	4,681,741	4,612,638	221,010
	<u>11,390,018</u>	<u>10,161,026</u>	<u>7,957,213</u>	<u>4,422,334</u>	<u>11,700,430</u>	<u>7,834,706</u>	<u>8,151,813</u>	<u>2,218,521</u>

2.3.2 Performance in Revenue Collection

Observations regarding the revenue collection performance of the Sabha are given below.

Audit Observation

- (a) The total outstanding income amounting Rs. 4,422,334 and at the end of the year under review it was Rs. 2,218,521 as at 01 January of the year under review.

Comment of the Sabha

Agreed.

Recommendation

The arrears of income should be recovered as soon as possible.

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| (b) | The total outstanding rental income was Rs.1,899,123 as at 01 January of the year under review, and it was Rs.4,093,845 at the end of the year under review. | The action will be taken to charge in the future. | - do - |
| (c) | According to the Southern Province, Local Government Commissioner's Circular no SLG/CLG/2010/01, every agreement for shop rooms should be updated once in 03 years, however the lease agreements related to 17 shops were not updated after the years 2017 and 2019. | The relevant action will be done in the future. | Action should be taken according to the Circular. |

3. Operational Review
3.1 Management Inefficiencies

Audit Observation	Comment of the Sabha	Recommendation
The Sabha had not done any follow-up on the correctness of the income received by the Sabha from the solar power generation project implemented by the Ministry of Power under the supervision of the Sri Lanka Sustainable Energy Authority at a cost of Rs.1,680,000.	The income received is properly accounted.	The action should be taken enter into agreements and made follow-up arrangements.

3.2 Assets Management.

Audit Observation	Comment of the Sabha	Recommendation
Although the Sabha had incurred an expenditure of Rs.1,164,613 for the construction of the playground on the Kabaragala Estate land belonging to the Neluwa Divisional Secretariat, the action had not been taken acquire this land by the Sabha.	The letters have been forwarded to the Divisional Secretary for acquisition of the land.	The land should be acquired to the Sabha.

3.3 Delays in projects, activities or capital works

Audit Observation	Comment of the Sabha	Recommendation
Although a allocation of Rs.3,000,000 had been approved to implement 02 projects under Provincial Specific Development Grants, those projects had not been implemented and had been abandoned.	Due to rapid rise in prices in the year 2022, the approved provision amount is insufficient.	Projects should be implemented under approved provisions.

3.4 Contracts Administration

Audit Observation	Comment of the Sabha	Recommendation
(a) An over payment of Rs.236,510 had been made as Rs. 54,240 for the transportation of soil for the development of the upper Maddegama playground, Rs.49,978 for laying soil using a motor grader and for paying Rs.136,292 for the soil without filing the transported.	Even though the amount of soil was transported at a distance of 1Km, it was not quantitative, vehicle measurements were used to measure the soil, and excess payments were deducted from the retention amount.	The over payment should be recovered.
(b) The development of Neluwa Public Stadium - Land Preparation Soil was taken from the Batuangala crematorium site belonging to the Sabha under the work subject 1 to carry out the construction work therefore an overpayment of Rs. 429,592 had been made for the soil.	According to the decision of the monthly general meeting, the contractor has transported the amount of soil taken from the Batuangala crematorium land.	- do -
(c) The development of Neluwa Public Stadium - 2021 Preparation of Drainage System (Excess Provisions) in the construction work, and over payment of Rs.280,198 was made as Rs.256,705 for form work and Rs.23,493 for concrete work due to non-application of fixed price rates under work item 1.5.	The ST – 063 price ratio and Ct – 08 price ratio were used.	The over payment should be recovered.
(d) Due to non-use of prescribed price rates for form work, Rs.107,257 and Rs.11,318 for concrete work were over payment of Rs.118,575 had been made for the Phase II Construction Work Subject 1.5 in the Neluwa Public Stadium drainage system construction.	ST – 063 price ratio and Ct – 08 price ratio used.	- do -